



**Statement for the Record  
by the  
American Federation of State, County and  
Municipal Employees (AFSCME)  
for the Hearing  
on the  
Future of Medicare Advantage Health Plans  
Before the  
Subcommittee on Health  
Committee on Ways and Means  
U.S. House of Representatives  
July 24, 2014**

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This statement is submitted on behalf of the 1.6 million working and retiree members of the American Federation of State, County and Municipal Employees (AFSCME) for the hearing held July 24, 2014 on the status of private health plans in Medicare and the Affordable Care Act (ACA).

AFSCME is proud of labor's historic role in the creation of Medicare. Medicare provides what commercial health insurance companies did not, would not, and could not: affordable, adequate health coverage for America's elderly population regardless of income or health status. Before the enactment of Medicare in 1965, only half the population age 65 and older had health insurance and, those who did have coverage, paid close to triple what younger people paid for premiums and other out-of-pocket costs. For nearly 50 years, Medicare has helped generations of Americans to keep a foothold in the middle class as they age.

Despite the reasons for the establishment of Medicare, Congress has nonetheless allowed private insurance companies to offer Medicare beneficiaries insurance policies that replace the benefits Medicare provides. Insurers are paid by Medicare to provide these benefits. Since the 1980s Medicare's private insurance program has had several variations and has been called the Medicare Risk Program, Medicare+Choice and now Medicare Advantage (MA). By any name these are private insurance plans offered as a substitution for traditional Medicare. They are not a supplemental plan and do not have the guarantees inherent in traditional Medicare.

In calling for this hearing, Chairman Kevin Brady (R-TX) suggests that the ACA threatens private Medicare plans and the seniors who enroll in these plans. We are concerned that such claims distort facts and misinform seniors.

**The Affordable Care Act protects seniors and Medicare from the worst abuses of private insurers.**

In the years before the ACA, these private insurance companies preyed on seniors with abusive marketing and sales tactics, <sup>1</sup>were inefficient,<sup>2</sup> did not provide improved care to justify

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<sup>1</sup> State insurance departments, State Health Insurance Assistance Programs (SHIPs), and consumer advocacy organizations consistently reported that they received a disproportionately high number of complaints and found patterns of overly aggressive, deceptive and abusive marketing and sales practices related to Medicare private plans. [\*National Association of Insurance Commissioners, Senior Issues Task Force, White Paper on Regulation of Medicare Private Plans\*](#)

<sup>2</sup> [\*MedPAC Report to the Congress, Glenn Hackbarth Testimony before the Subcommittee on Health, House Ways and Means Committee, March 11, 2008.\*](#)

the excessive cost<sup>3</sup> and were largely unregulated. Extra payments to Medicare Advantage plans, enacted as part of the Medicare Modernization Act of 2003, were contributing to projections of future shortfalls in the HI Trust Fund as well as adding to the costs of Part B for both Medicare and its beneficiaries.

The year before the enactment of the ACA, MA plans were being paid on average \$1.14 for what it would cost traditional Medicare \$1.00 for the same beneficiaries. These extra payments put added strain on the Medicare trust fund and beneficiaries' budgets. In 2009, these extra payments meant an extra \$1,280 per MA enrollee or \$14 billion in higher aggregate payments from Medicare funds, and a couple with traditional Medicare paid \$86 more in their Medicare premiums to fund these extra payments to insurance companies. From 2004 to 2009, these overpayments cost the Medicare program nearly \$44 billion.

The ACA addresses these significant problems with the MA program and improves MA beneficiary protections.

- The ACA changed Medicare payments policies to reward high-value - not high-volume - care.
- The ACA changed how Medicare pays MA plans. It scaled back the overpayments and established policies so that the payments made to MA plans are close to payments and costs in traditional Medicare.
- The ACA makes changes to MA so that plan payments are done gradually and are phased in over nearly a decade so plans have time to adopt needed efficiencies.
- The ACA also forbids these private insurers from charging higher co-payments than traditional Medicare. This is particularly important to sicker beneficiaries.
- The ACA also stops MA plans from spending too much of premium dollars on overhead expenses, such as CEO salaries and perks, marketing, profits, administrative costs, and agent commissions. Insurers must use at least 85 cents out of every premium dollar to pay medical claims and provide activities that improve the quality of care.
- The ACA eliminates out-of-pocket costs for Medicare beneficiaries enrolled in MA plans or traditional Medicare for important preventive services, like mammograms, prostate cancer screenings, colonoscopies or key immunizations.
- The ACA sets up new initiatives to improve the quality of MA plans.

### **The ACA strengthens Medicare and improves beneficiaries' benefits.**

With the ACA, seniors now have more affordable access to medications through Medicare Part D. Thanks to the ACA's required prescription drug discounts nearly 8 million people with Medicare have saved \$10 billion on their medications. In 2021, the ACA ends the coverage gap for Medicare prescription drugs – known as the donut hole.

As mentioned previously, the ACA improved access to life-saving preventive services. Before the ACA, seniors had to pay part of the cost of recommended preventive screenings. This created a financial stumbling block for many seniors and prevented them from accessing key cancer screenings and immunizations. Now these and other preventive services have no

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<sup>3</sup> [Department of Health and Human Services, \*The Medicare Advantage Program in 2014\* \(April 2014\).](#)

deductible or co-payment. Thanks to the ACA, some 37.2 million people with Medicare used at least one free preventive service last year.

Because of the ACA improvements affecting traditional Medicare and MA plans, the solvency of the Medicare Hospital Insurance Trust Fund has been extended by a decade, through 2026. And, many predict that the soon-to-be released 2014 Medicare Trustees Report will project additional years of solvency.

**Medicare is an amazing success story and the ACA helps it to be even better for this and future generations.**

Because of Medicare, older Americans have access to modern medicine no matter what their health status or individual income. Traditional Medicare's guaranteed benefits protect seniors and their families from financial ruin due to illness or injury. Now, many of the significant problems with the system's MA plans have been addressed by the ACA – making MA a better program for its participants and a better partner for Medicare. By curbing overpayments to insurers, the ACA is helping to rebuild fiscal solvency for the trust fund and has helped protect vulnerable beneficiaries from the predatory tactics of some insurance companies. The changes made by the ACA make Medicare stronger – both for current beneficiaries and for future generations.